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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	
Tariffs Implementing	)	**CC Docket No. 97-250**
	)	
Access Charge Reform	)	
	)	

DIRECT CASE OF THE SBC COMPANIES

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February 27, 1998

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SUMMARY*

The Commission's investigation should be concluded without further action as to the SBC Companies' tariffs. None of the issues for investigation raise any significant question of lawfulness as to the SBC Companies' tariffs, and thus, the tariffs should be allowed to remain in effect as currently on file.

This Direct Case explains SWBT's definition of primary and non-primary residential lines. This filing provides the detailed information requested by the Bureau on the primary and non-primary line counts used by the SBC Companies.

The SBC Companies also demonstrate herein that the Bureau erroneously concluded that SWBT's maximum CCL charge generates revenues that exceed the common line revenues intended to be permitted under price caps. This Direct Case shows that the current maximum allowable CCL rates/revenues are actually lower than the CCL rates/revenues that would have resulted from EUCL rates/revenues based on actual per-line BFP. These calculations contradict the Bureau's tentative conclusion because the Bureau's tentative conclusion ignored the effect of the growth (g) factor on the EUCL/MOU revenue.

The SBC Companies also properly calculated the exogenous cost charges for line ports and end office trunk ports. The Commission has not revised its <u>Access Charge Reform Order</u>, which states that "costs" should be transferred, to mean that " revenues" should be transferred. If "revenue" is used as a measure of exogenous cost, this treatment would, on its face, be different than treatment used for other exogenous cost shifts previously required by the Commission.

The SBC Companies also properly calculated the TIC in their filings. The SBC Companies, contrary to claims by AT&T, used a consistent methodology, and provided ample supporting documentation to justify the amount of COE maintenance and marketing costs removed from the TIC. The SBC Companies made these changes to the TIC as it existed on July 1, 1997. The Bureau's tentative conclusion that these changes should be made to the TIC as it existed prior to July 1, 1997 is contrary to the Access Charge Reform Order's requirements.

The SBC Companies agree that the amendment to Section 69.111(c) does not apply to price cap LECs. The current price cap rules allow for upward adjustments to the upper band limitation after a price cap LEC "initializes" tandem rates to comply with 69.111(c).

The SBC Companies' methodology to calculate the residual and facilities based TIC were correct. As shown in the Direct Case and the exhibits, the SBC Companies' methodology produces virtually the same result as AT&T's methodology, once AT&T's suggested methodology is corrected for obvious errors.

Finally, the SBC Companies' Direct Case shows that they determined the proper USF allocations among the common line, interexchange, and trunking baskets. The differences found by the Bureau are likely due to the different sources used in the calculations. The SBC Companies show herein that they used the proper source data.

*All abbreviations used herein are referenced within the text.

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DIRECT CASE OF THE SBC COMPANIES

I. INTRODUCTION

Pursuant to the Designation Order,[1] released January 28, 1998 by the Federal Communications Commission (Commission), Southwestern Bell Telephone Company (SWBT), Pacific Bell (Pacific), and Nevada Bell (Nevada) (collectively, the SBC Companies), hereby respond to the issues listed for investigation. None of the issues as they apply to the access tariffs filed by the SBC Companies raise any significant question of lawfulness, and the investigation should be concluded without further action by the Commission.

II. COMMON LINE ISSUES

A. Non-primary Residential Line Issues

The Common Carrier Bureau (Bureau) admits that the Commision has not yet adopted a uniform nationwide definition of primary and non-primary residential lines. Nevertheless, the order asks SWBT to explain fully its definition of primary and non-primary residential lines, including any assumptions that went into these definitions. In the Direct Case, SWBT is invited

[1] Tariffs Implementing Access Charge Reform, CC Docket No. 97-250, Order Designating Issues for Investigation and Order on Reconsideration, (DA 98-151) (Com. Car. Bur., rel. January 28, 1998) (Designation Order).

to submit modified, expanded, or clarified definitions as necessary. SWBT is to make clear what lines these definitions include and the manner in which they would be identified, such as by account number(s), billing number(s), customer name, location, or by whatever sorting method was used.[2]

SWBT considers a line a primary residential line if it is a line with a residence class of service, billed on a single line account. In addition, a line is considered to be a primary residential line if it is a line with a residence class of service that is single account billed as part of a multi-line or multi-party service. A line is considered to be a non-primary residential line if it has a residence class of service, is billed as part of a multi-line or multi-party service and is not the first line on the account and is classified as an additional line. A line is classified as an additional line any time there is already at least one working line present at the time it is installed in a single family living unit. For example, if two lines in the same living unit appear on the same bill, the account would be considered multi-line or multi-party service. The first line would be considered primary and the second line would be classified as non-primary. Another example involves two lines in a single-family living unit, but the lines are billed on separate bills. Because both lines would be considered single line service, both lines would be considered primary.

The Designation Order requires the LECs to identify the number of lines in each of the following categories: (1) primary residential lines; (2) single-line business lines; (3) non-primary residential lines; and (4) BRI ISDN lines. The SBC Companies have provided this detailed information in the requested format in the attachment entitled "LINES." The data shown is for the base year of 1996.

[2] Designation Order at para. 15.

In addition, using Appendix B to the Designation Order, each LEC's direct case must delineate what, how, and in which order data were sorted and used in accordance with its definition to arrive at the primary and non-primary residential line count totals. Also, each LEC must include an explanation of why its definition is reasonable.[3]

Exhibits SWBAPPB, PACAPPB and NEVAPPB provide the information requested in Appendix B of the Designation Order. The SBC Companies' applied definition of "Primary Residential" is the only reasonable definition because it clearly identifies an end user line that is provided as a "basic" telephone line. It guarantees that each household, at a minimum, will have a primary residential line. It treats additional lines in the same house as non-primary residential with the exception of the first line for each additional multi-line or multi-party account. In the case of a multi-line or multi-party account the SBC Companies are unable to identify if the account is for single or multiple households, therefore, our definition is non-intrusive, is in the public interest, and does not advantage any party.[4]

B. Adjustment of Common Line Revenues Because of Alleged Historic Understatement of BFP.

Due to the Commission's concerns over the alleged past understatement of the base factor portion (BFP), the Designation Order directs SWBT to provide a recalculation of its maximum common line revenues, using the carrier common line (CCL) Recalculation Methodology employed by AT&T in its December 23 Petition. The Designation Order also seeks comment on this proposed methodology, and on whether this proposed methodology should be adjusted to

[3] Designation Order at para. 7.

[4] Footnote 40 of the Designation Order cites a study by Salomon Brothers, dated November 28, 1997. The percentages in the study are not a reflection of the additional lines used for determining EUCL and PICC charges, since they appear to reflect all additional lines.

account for specific instances in which price cap LECs have priced their carrier common line (CCL) charges below the permitted cap or have reduced their price cap indexes (PCIs) for a tariff year because of sharing. Additionally, the Designation Order invites LECs to submit alternative methodologies that may present a more accurate calculation of their maximum common line revenues.[5]

In paragraph 30 the Bureau had concluded that if a LEC understates its per-line BFP revenue requirement, "the maximum CCL charge becomes increasingly inflated, generating revenues that exceed the common line revenues intended to be permitted under price caps." This erroneous conclusion is based on AT&T's claim that if LECs' current PCIs and CCL rates are not adjusted, CCL overcharges will continue into the future.[6] AT&T based its claim on an analysis of US West's 1991 through 1997 data. Based on this analysis, which appears to contain significant errors, the Bureau tentatively concludes that SWBT's current maximum CCL rates are unreasonably high due to the past understatement of per-line BFP revenue requirement.[7] The Bureau directed SWBT to provide a recalculation of its maximum common line revenues, using the AT&T December 23 Petition methodology.

As SWBT demonstrates below, the current maximum allowable CCL rates/revenues are actually lower than the CCL rates/revenues that would have resulted from EUCL rates based on actual per-line BFP. SWBT's replication of AT&T's methodology is shown for all PCI and Common Line rate affecting filings on Exhibit RCCL-1. Exhibit RCCL-2 is a summary of the rate and revenue effects and shows that the current maximum allowable CCL rate and revenue

[5] Designation Order at para. 35.
[6] Designation Order at para. 31.
[7] Designation Order at para. 35

are actually lower than the rate and revenue that result from the use of end-user common line (EUCL) rates based on the actual per-line BFP revenue requirements from Table A1 of the Commission's 1997 Annual Access Tariff Investigation Order.[8] The current maximum CCL revenue for CCL rates (in Transmittal No. 2679) based on the filed EUCL rates is actually $0.88M lower than the revenue from the actual per-line BFP based CCL rates. The current (1/1/98) CCL rate of $.005990 is lower than the actual per-line BFP based rate of $.006013. This figure represents the accumulated effect on CCL rates from the filed EUCL rates since the first Price Cap Annual Filing in 1991. This analysis also shows that, contrary to the Bureau's tentative conclusion, the total common line revenue from the filed EUCL and CCL rates is actually equal to or lower than the total common line revenue from EUCL and CCL rates based on the actual per-line BFP revenue requirements for all time periods.[9]

The Bureau's conclusion that total common line revenue is higher when EUCL rates are set too low is incorrect because it ignores the effect of the growth (g) factor on the EUCL/MOU revenue. As a result of this effect, an increase in the EUCL rate/revenue does not result in a dollar for dollar decrease in CCL revenue. Therefore, an increase in EUCL revenue accompanied by a positive 'g' factor can result in an increase in total common line revenue.[10]

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[8] 1997 Annual Access Tariff Filings, Transmittal No. 2683, Memorandum Opinion and Order (DA 98-173) (released January 30, 1998) (EUCL Tariff Rejection Order).

[9] See Exhibit RCCL-1, Line 260, attached.

[10] In SWBT's 1991 Annual Filing (Transmittal No. 2114), increasing the filed EUCL rate of $4.86 to the actual per-line BFP based EUCL rate of $4.98 increases EUCL base period revenues by $3,876,978 (RCCL-1 line 340B-340A) but decreases CCL base period revenue by only $3,766,433 (RCCL-1 line 400B - 400A). Therefore, the effect of SWBT's $4.86 EUCL rate being too low is $110,545 less base period total Common Line revenue ($3,766,433 - $3,876,978) used to calculate subsequent year CCL rates.

This analysis indisputably demonstrates that for SWBT, at the point in time the filed EUCL rate became equal to the actual historical EUCL rate (July 1, 1996), the CCL rate self corrected and the resulting maximum CCL revenue is essentially the same as the CCL revenue associated with actual per-line BFP-based EUCL rates and will remain the same as long as no difference between the EUCL rates exists. Therefore, any past understatement of SWBT's EUCL rates has not resulted in a current CCL rate that is too high.

The Bureau also seeks comment on whether AT&T's methodology should be adjusted to account for previous below cap pricing and sharing.[11] To the extent the current CCL rates are determined to be too high, any required adjustment should account for below cap pricing and sharing that had the effect of reducing CCL rates. However, since SWBT's current CCL rates are not too high, such an adjustment is not required.

A further refinement to AT&T's methodology, in addition to SWBT's method of recasting every interim common line rate or index affecting filing rather than estimating the impact of filings, is a recalculation of PCIs based on 'R' values that reflect the recast total common line revenue. However, in SWBT's case, the effect would be minor since the difference between the actual and recast total common line revenue was never significant.

III. METHODOLOGY FOR CALCULATING EXOGENOUS COST CHANGES FOR LINE PORTS AND END OFFICE TRUNK PORTS

The Designation Order notes that as an initial matter,

> the Commission has never adopted by rulemaking a single methodology for computing exogenous cost changes that result from a reallocation of cost recovery among price cap service categories, baskets, or rate elements. It is therefore appropriate for us to determine

[11] Designation Order at para. 35.

the proper methodology for these exogenous cost changes in a tariff investigation under Section 204 of the Communications Act, 47 U.S.C. § 204.

The Designation Order goes on to tentatively conclude that revenues, and not Part 69 revenue requirements, are the best measure of the costs recovered through a particular price cap rate element. Comment is sought on this tentative conclusion.[12]

Also, the Designation Order suggests that if the Commission concludes that the LECs were required to use revenue requirement, rather than revenues, to make the exogenous cost changes, actual basket earnings must be used to calculate the revenue requirement. Comment is sought on this tentative conclusion as well.[13]

The Designation Order further seeks comment on whether the methodology discussed for ports should be applied to other reallocations required by the Access Charge Reform Order. Parties should quantify the results of using this methodology consistently for all such reallocations. The Bureau directs each LEC to include in its direct case a comprehensive list of all the exogenous adjustments it has made since it entered price cap regulation that had the purpose of reallocating costs among baskets, categories, rate elements, or between price cap and non price cap services. LECs should list the method used in each instance.[14]

The Bureau recognizes that the initial price cap rates were based on Part 69 revenue requirements at an 11.25% rate of return and that since then, LECs that reduced their costs have

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[12]Designation Order at para. 48.
[13]Designation Order at para. 49.
[14]Designation Order at para. 51.

been allowed to retain some of their increased earnings.[15] The Bureau tentatively concludes that since current Part 69 revenue requirements are unlikely to match the costs actually recovered for a particular rate element, revenues are the best measure of costs recovered by a particular price cap rate element.

The Access Charge Reform Order's requirement to transfer "costs" should not be interpreted to mean "revenues" where no cost-specific rate element or revenue stream exists for the item being transferred. Although price cap revenues can be considered a recovery of some global measure of costs resulting from the application of benchmark inflation and productivity factors, price cap revenues are not a measure of specific rate element or service costs.

The Bureau's tentative conclusion that actual basket earnings should be used to measure exogenous costs if revenue requirements are used to quantify costs[16] should also be rejected since this method of exogenous cost quantification is simply a surrogate for a revenue-based measurement. As the Bureau previously recognized in its 1992 Annual Filing Investigation Order, basket earnings are irrelevant to the price cap plan.[17]

The Bureau attempts to support the use of revenues as the basis for quantifying exogenous costs by claiming that if a basket contains revenues that exceed the costs (at an 11.25% rate of return) of the elements/services in the basket, the removal of all elements/services from the basket would not remove all revenue from the basket.[18] The removal of rate

[15] Designation Order at para. 48.

[16] Designation Order at para. 49.

[17] In the Matter of 1992 Annual Access Tariff Filings, CC Docket No. 92-141, DA 92-841, Memorandum Opinion and Order Suspending Rates and Designating Issues for Investigation, released June 22, 1992, paras. 6-7.

[18] Designation Order at para. 50.

elements/services from price cap regulation (i.e., payphone deregulation) should be treated as a removal of the revenue stream from price cap regulation rather than the removal of specific costs. The actual costs of the removed rate elements/services are irrelevant since, as the Bureau recognizes, no revenue/cost relationship exists. The use of an exogenous cost adjustment to remove rate elements/services from price caps is simply an expedient mechanism. The revenue could be removed, with or without index adjustments,without using the exogenous cost mechanism. Therefore, the quantification and allocation of "costs" of nonexistent rate elements among or out of price cap baskets need not match the methodology used to remove rate elements/services from price caps.

If, however, the Commission finds that the quantification of line and trunk port costs should be based on revenues or actual earnings-based revenue requirements, it would require a consistent application of the methodology to all "costs" being transferred among or out of price cap baskets.

However, a revenue based exogenous cost allocation may not be able to be applied consistently, depending on whether the costs related to the exogenous change can be directly associated with revenues. For example, in the case of the calculation for ports, local switching costs can be assumed to be equal to local switching revenues. One simply determines what percentage of the local switching costs are port related and then applies this percentage to revenues. Therefore, no Part 69 revenue requirement quantification is required. For other exogenous changes, such as GSF, it is necessary to have a Part 69 cost shift analysis by basket before any distribution based on revenues can occur. For GSF, the SBC Companies first calculated the cost shifts between baskets, assuming an 11.25 percent rate-of-return. Next, a factor based on the relationship of each price cap basket's revenues to costs at an 11.25 percent rate-of-return was developed for the base period (1996). This revenue to cost factor was applied to the GSF cost shifts to close the amounts to revenue levels. The GSF cost impacts therefore reflect revenue levels as they exist for the base period.

As shown on Exhibit Reallocation, the port exogenous costs transferred out of the Local Switching category quantified on the basis of revenue or actual earnings-based revenue requirements would be higher but in some cases the general support facilities (GSF) costs transferred out of the price cap access categories would be lower. Thus, if the SBC Companies are required to recalculate port exogenous costs, the GSF costs must, in fairness, also be recalculated.

If costs are reallocated using revenues as a surrogate for costs, the Bureau tentatively concludes that common line rate development should be done in the following manner. Price cap LECs should use local switching revenues for the purpose of determining the amount of exogenous cost adjustments to the Traffic-Sensitive and Common Line baskets, but price cap LECs should use their Part 69 revenue requirements to recalculate the BFP, because the BFP is still calculated pursuant to fully-distributed embedded costs and revenue requirements. The Bureau seeks comment on this tentative conclusion.[19]

Exhibits SWBEXOG, PACEXOG and NEVEXOG provide a comprehensive list of SWBT's, Pacific's and Nevada's exogenous adjustments that reallocated cost since entering price caps, respectively. These exhibits provide the transmittal number and date, a brief description of the activity and the method used to complete the allocation.

[19]Designation Order at para. 52.

If the Commission mandates the use of revenue or actual earnings based revenue requirement as a measure of exogenous cost, it must fully explain and justify why BFP costs need to be measured differently. The method described by the Bureau for common line rate development appears to improperly mix methodologies.

IV. TRANSPORT ADJUSTMENT ISSUES

A. The SBC Companies are Not Attributing Too Large a Fraction of Their Tandem Switching Revenue Requirement to SS7 Costs.

Based on allegations of MCI, the Bureau is concerned that SWBT, Pacific Bell, and Nevada Bell have included STP port costs in their SS7 revenue requirement even though, as MCI notes, these costs have never been part of the transport interconnection charge (TIC). The Commission tentatively concludes that these price cap LECs should be required to deduct STP port costs from the SS7 revenue requirement if STP port costs have been included in the dedicated signaling rate element, and ask comment as to this conclusion.[20]

The SWBT, Pacific and Nevada activity regarding STP ports was limited to moving the STP port rate element from the HiCap/DDS Undesignated Category to the new STP Port subcategory in the traffic sensitive basket as instructed by the Access Charge Reform Order. SWBT, Pacific and Nevada did not deduct revenue associated with the existing STP Port rate element from the SS7 revenue requirement. There were no specific instructions in the Access Charge Reform Order to make such an adjustment and so, such an adjustment cannot be required without modification of the Access Charge Reform Order.

B. The SBC Companies Made the Proper COE Maintenance and Marketing Cost Adjustments to the TIC.

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[20] Designation Order at para. 62.

Based on concerns over whether the price cap LECs have properly removed marketing expenses and central office equipment (COE) maintenance expenses from the TIC, the price cap LECs are directed to provide supporting documentation justifying the amount that was removed from the TIC as COE maintenance and marketing expenses. In particular, the price cap LECs must provide detailed information substantiating the amount of COE maintenance and marketing costs that were removed from the trunking basket, and the portion of that amount that was removed from the TIC. Price cap LECs are to explain their theory for determining the portion removed from the TIC by commenting on whether the portion removed from the TIC should be based on the relative revenues in each category or the relative switched access revenues in each category, or on a more detailed analysis of the source of the costs.[21]

In addition, the Bureau tentatively concludes that the price cap LECs must allocate these exogenous cost changes to the TIC as it existed prior to July 1, 1997. The Bureau seeks comment on this tentative conclusion.[22]

The Bureau notes that LECs were required to identify COE maintenance expense "misallocated" to the Trunking and Common Line baskets and move recovery of these amounts to the Local Switching category of the Traffic Sensitive basket.[23] LECs were also required to remove Account 6610 Marketing expenses from non-retail purchased access rate elements.

SWBT, Pacific Bell and Nevada Bell all provided supporting documentation for the

[21] Designation Order at para. 67.
[22] Designation Order at para. 68.
[23] Designation Order at para. 63.

quantification and allocation of these costs in their Description and Justification (D&J)[24]. The documentation for COE maintenance is contained in Section 4 and for marketing expense in Section 5.

As an example, SWBT's D&J, page 4-3 contains a Table 1 showing that $39.8M of COE maintenance was removed from the Trunking basket. As correctly noted by Frontier in its Reply, there was no requirement to specifically target a set amount to the TIC. Since SWBT's TIC revenue was approximately 20% of the Trunking basket revenue, about $8M of the undesignated Trunking basket COE maintenance cost was removed from the TIC as shown on D&J page 17-3, Table 1. This allocation is a result of the application of the Commission's current Part 61 Rules. The COE maintenance amounts removed from the Trunking basket and the TIC category pursuant to the Part 61 Rules are $23.4M and $3.6M for Pacific Bell and $700K and $106K for Nevada Bell.

As required by the Access Charge Reform Order, the SBC Companies allocated Account 6610 marketing expense to both the Trunking basket and the TIC category based on their Switched Access revenues. For SWBT, $8.5M of marketing expense was removed from the Trunking basket with $5.1M of this amount removed from the TIC based on its percentage of Trunking basket Switched Access revenue. This allocation is shown on D&J pages 5-2 and 5-3. The Trunking basket and TIC category marketing expense amounts based on Switched Access revenue are $10.2M and $4.0M for Pacific Bell and $300K and $94K for Nevada Bell.

[24] AT&T erroneously claimed SWBT was the only SBC Company LEC to "apply both COE maintenance and marketing exogenous cost adjustments to the TIC." AT&T did not recognize that Pacific Bell and Nevada Bell also applied these costs to the TIC. The SBC Companies used a consistent methodology to allocate these costs.

The Bureau seeks comment on whether the portion of these costs removed from the TIC should be based on the relative revenue in each category, the Switched Access revenue or a cost analysis.[25] Paragraph 323 of the Access Charge Reform Order, however, clearly directed that "The service band indices (SBIs) within the trunking basket shall be decreased based on the amount of Account 6610 marketing expenses allocated to switched services included in each service category". There is no need to consider this matter further in this proceeding unless the Access Charge Reform Order is modified in a separate proceeding.

The Bureau seeks comments on its tentative conclusion that LECs must allocate these exogenous cost changes to the TIC as it existed prior to July 1, 1997.[26] As Frontier pointed out in its Reply, the Access Charge Reform Order did not even mention using the pre-July 1, 1997 TIC amount as a basis of allocation. This concept is entirely new, and is contrary to the Access Charge Reform Order's requirements. If the Commission had intended to require a June 30, 1997 allocation it would have given specific instructions similar to its instruction in paragraph 197 regarding the methodology to be used to remove tandem switching costs from the TIC. Paragraph 228 specifically instructs LECs to adjust SBIs based on the relationship of the revenue being added or subtracted and the category revenue "at the time of the adjustment." Thus, the changes must be allocated to the post-July 1, 1997 TIC.

C. The SBC Companies Properly Estimated the Impact on the TIC Arising from the Use of Actual Minutes of Use Rather than Assumed 9000 Minutes of Use.

The Designation Order notes that all of the price cap LECs' transport rates between the

[25] Designation Order at para. 67.
[26] Designation Order at para. 68.

tandem switch and the end office did indeed decline when LECs based those rates on the actual MOUs per voice-grade circuit rather than the previously assumed 9000 MOUs. Faced with this development, the Designation Order now tentatively concludes that price cap carriers should not recalculate their tandem-switched transport rates pursuant to section 69.111(c). The Bureau seeks comment on this tentative conclusion.[27]

The SBC Companies agree with this tentative conclusion that the amendment to Section 69.111(c) does not apply to price cap carriers. This conclusion is appropriate, as there is nothing in the Rules or in any Commission order that suspends the price cap rules (Part 61) as they apply to the Tandem sub-index category. As such, using Part 61 rules, after a price cap LEC "initializes" tandem rates to comply with 69.111(c) it could make any upward adjustment to the upper band limitation.

Further, the Designation Order tentatively concludes that to satisfy the Access Charge Reform Order, the price cap LECs should recalculate tandem-switched transport rates using the same data that was used when they were first established in 1993, except using actual minutes of use for circuit loading, rather than assuming 9000 MOU per month. The price cap LECs are to then compare those rates to the 1993 rates to determine the amount of the TIC that was attributable to using the 9000 MOU assumption. The price cap LECs are to determine what percentage of the original TIC was therefore attributable to using the 9000 MOU assumption and make an exogenous adjustment to their June 30, 1997 TIC SBI by that percentage. LECs are to make a corresponding exogenous adjustment to their tandem-switched transport SBIs, based on the percentage of tandem-switched transport revenue attributable to the 9000 MOU assumption.

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[27]Designation Order at para. 78.

The Designation Order seeks comment on whether price cap LECs should be permitted to increase their TIC, or whether they should only be permitted to reduce their TIC.[28]

As required by the Designation Order, the recalculated Tandem rates are displayed on exhibits NEWTNDM for each of the SBC Companies. In addition, these exhibits reflect the original calculations and format originally submitted by each company. The revised indices as well as the amount of TIC attributable to 9000 minutes required by the Designation Order are displayed on exhibits TNDMSBI for each company. In the case of SWBT, these data have been adjusted for the OPEB reversal which became effective concurrently with the LTR filing. This adjustment is appropriate as the indices, rates and resulting revenues contained in the LTR filing were replaced by those in the OPEB reversal filing.

The retroactive approach described in paragraph 79, however, is needless and should not be undertaken. In the event a retroactive index adjustment is implemented, LECs should be allowed to adjust all index values based upon the effects of this decision. If these actions require an upward adjustment of the TIC, an upward adjustment should be allowed.

The Designation Order also seeks comment on whether multiplexer costs on the end office and serving wire center side are relevant in the computation of the tandem-switched transport rate. LECs are to demonstrate that the weighted (by total DS1 and DS3 lines) average of DS1 and DS3 rates divided by actual minutes of use per voice-grade circuit is affected by the multiplexers at the tandem switch.[29]

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[28]Designation Order at para. 79.
[29]Designation Order at para. 80.

To isolate the effects of assuming 9000 minutes of use versus using actual minutes of use on tandem-switched transport rates, one multiplexer should be included in the restated rate because this multiplexer was also included in the 1993 price setting process. In establishing the revised rate for tandem-switched transport, the shared multiplexer rate is relevant, but only as it relates to the development of adjusted index values. It is not necessary to reduce the tandem-switched transport rate on a dollar for dollar basis to recognize the effect of a new shared multiplexer rate element. The tandem-switched transport rate level needs to remain within SBI and PCI price restrictions when combined with the effect of the new shared multiplexer rate level. Exhibit TNDMMUX demonstrates that the weighted (by total DS1 and DS3 lines) average of DS1 and DS3 rates divided by actual minutes of use per voice-grade circuit is affected by the multiplexers at the tandem switch.

D. The SBC Companies Correctly Recalculated the Residual and Facilities-Based TIC Amounts

Based upon allegations by AT&T, the Designation Order tentatively finds that in some cases, the price cap LECs have not demonstrated that they calculated the TIC amounts correctly. The Bureau tentatively concludes that the AT&T workpaper format for the TIC recalculation will properly determine the transport costs that are to be removed from the TIC and the facilities-based portion of the TIC. The Bureau directs the price cap LECs that no longer have a non-facilities residual TIC, to recalculate the removal of TIC costs and the facilities-based portion of the TIC using the worksheet provided by AT&T in its December 23 petition.

The Bureau seeks comment on its proposed use of the AT&T worksheet for this purpose.

Further, Pacific Bell must include in its direct case a justification of the methodology used to calculate these amounts.[30]

The Bureau correctly notes in paragraph 81 that LECs were required to separate TIC revenues between facilities-related and non-facilities-related, which the Bureau labels as "residual TIC". Paragraph 82 also correctly notes that LECs were required to "eliminate any excess targeting" and to "direct all necessary exogenous cost adjustments to their PCIs and SBIs to remove the effects of excess targeting."

AT&T makes a number of erroneous claims regarding the SBC Companies' methodology, a methodology that fully complies with the Access Charge Reform Order's requirements. AT&T claims (as noted in paragraphs 83 and 86 of the Designation Order) that SWBT failed to determine whether a TIC true-up reversal was required because SWBT used the July 1, 1997 TIC amount rather than the June 30, 1997 amount in its analysis. As the analysis contained in the attached Exhibit TICALC shows, the SBC Companies' methodology results in the correct determination of any required TIC targeting reversal and in fact produces virtually the same result as AT&T's methodology, once AT&T's methodology is corrected to include the proper amount of the 1997 Annual Filing TIC reduction.

AT&T also claims (as noted in paragraph 84 of the Designation Order) that most LECs, including the SBC Companies, did not include all exogenous TIC costs in their calculations. The SBC Companies, however, included all TIC exogenous costs in their analyses as shown in Section 17 of their D & Js, including both those costs specifically targeted to the TIC as well as the TIC's share of the Trunking basket untargeted (undesignated) exogenous costs.

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[30]Designation Order at para. 90.

Contrary to AT&T's assertion in its December 23, 1997 TIC-RECALC exhibit, the SBC Companies did include GSF costs in their calculations (weighted DEM costs did not apply to the SBC Companies). AT&T claims (as noted in paragraph 85 of the Designation Order) that no LEC other than Bell South included the correct amount of facilities-based TIC from its workpapers on line 690 of the TRP CAP-1 form. Both SWBT and Pacific Bell, however, included their correct workpaper facilities-based TIC amounts included in D&J Section 17 on line 690 of the CAP-1 form. Since these amounts are less than the remaining TIC amounts calculated on line 670, non-facilities TIC amounts still exist. As the Bureau correctly notes in paragraph 90, LECs that have non-facilities-based TIC "could not have overtargeted their July 1, 1997 X-factor reduction to the TIC", thus making this issue moot for SWBT and Pacific Bell.

For Nevada Bell, the facilities-based TIC amount on line 690 is equal to the line 670 amount since Nevada Bell required a targeting reversal and therefore has no non-facilities-based TIC. The amount on line 690 is slightly different from the amount shown on the D&J Section 17 worksheet due to an inadvertent expression of a positive number as a negative number. This resulted in a slightly higher TIC targeting reversal than that required.

The Bureau incorrectly claims that SWBT did not perform a separate true-up calculation to determine whether excess TIC targeting existed.[31] SWBT did perform such an analysis and fully documented its calculation in its D&J Section 17. In paragraph 90, the Bureau directs LECs that no longer have a non-facilities-based TIC to recalculate the removal of TIC costs using AT&T's December 23 Petition worksheet. Pacific Bell is incorrectly identified as a LEC having no non-facilities TIC. As stated above and shown on the Pacific Bell CAP-1 form, the

[31] Designation Order at para. 87.

total remaining TIC on line 670 is $33,732,293 and the facilities-based TIC on line 690 is $21,258,398 with the difference being the non-facilities-based TIC.

Since, as stated above, Nevada Bell has no non-facilities-based TIC, a replication of AT&T's December 23 methodology with a comparison to the SBC Companies' methodology is shown on Exhibit TICALC. As this comparison demonstrates, there is virtually no difference in the excess targeting amount when AT&T's worksheet numbers are corrected to include the correct 1997 Annual Filing TIC reduction. If AT&T's method is used as presented, it would result in an excessive amount of reverse targeting thereby creating a difference between the amount of TIC revenue required to cover the remaining facilities-based TIC costs and the remaining TIC. This would result in the creation of a non-facilities-based TIC amount where none should exist.

V. RECOVERY OF NEW UNIVERSAL SUPPORT OBLIGATIONS

The Bureau concludes that the price cap LECs' allocations of USF contributions among the common line, interexchange, and trunking baskets warrant further review due to the large variance in the ratios of the USF contribution each price cap LEC allocates to the common line, interexchange, and trunking baskets to its total USF contribution.

All LECs were therefore required to submit explanations detailing why the methodology each has used more accurately reflects the distribution of interstate end-user revenues across baskets. As part of this explanation, each price cap LEC must explain in detail the methodology it uses and any assumptions it makes to determine these allocations. Price cap LECs must report the interstate end-user revenues they derived from each basket during the accounting period they used to calculate their universal service contribution. If the proportions of the USF contributions that LECs allocate for recovery from the common line, trunking, and interexchange baskets differ from the proportions of the total interstate end-user revenues they report for these baskets, they must explain the reason for this difference. In addition, the Bureau seeks comment on whether there are any other methodologies superior to the two used by the price cap LECs. The Bureau also seeks comment on whether it should require all price cap LECs to use the same methodology and, if so, which methodology it should adopt.[32]

The SBC Companies determined the USF allocations based upon end user demand quantities multiplied by the current rate. Since end user demand data are available from the SBC Companies' tracking systems, demand assumptions were not required. The inherent assumption in the SBC Companies' calculations is that the then current rate was applied to the entire base period demand set. Thus, the 1996 base period current revenues are based upon rates resulting from the July 1997 annual filing. The end-user revenues by basket were included in the SBC Companies' Description and Justification on Table 2 in Section 2.

Any differences between the SBC Companies' method and the Form 457 are likely due to the source data used in the calculations. For example, the Form 457 utilizes Part 32 account data based upon booked revenues. In addition, the Form 457 data reflects January 1997 through June 1997 data whereas the SBC Companies' calculations are based upon 1996 base period demand.

Use of base period demand is preferred as these data represent the demand and revenue base from which USF must be recovered. In addition, neither the Form 457 nor the supporting data would permit the distribution of the USF amounts attributed to the Trunking Basket among the various index categories. For example, private line and special access revenues reported on

[32]Designation Order at para. 95.